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SUBJECT: SERBIAN ECONOMISTS WORRIED OVER FUTURE--AS WELL THEY SHOULD

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Summary

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¶1. The most prominent Serbian economists, business and economic leaders, and some government officials expressed concern about the country's economic future at the traditional winter conference of the Association of Economists of Serbia. A majority of the participants criticized the slowdown of economic policymaking, agreeing that Serbia must speed up reforms and that Serbia has no other future than the EU path. Some suggested that Serbia could simultaneously pursue two paths - the west and the east. Foreign investors expressed satisfaction with their results so far, carefully avoiding comment on the current political situation. End Summary.

Economists: Transition Must Speed Up

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¶2. Econ FSN attended the traditional winter gathering of prominent Serbian economists, business leaders, and government officials at the Kopaonik mountain resort at from 4-6 March, under the headline "Transition, Reaching EU and Linked Topics: The Role of Investors from Slovenia, Russian Federation and Austria." At the unusually well-attended conference, the majority of speakers agreed that economic reforms must speed up and that Serbia's future was in the EU. However, those close to PM Kostunica, led by Trade Minister Bubalo, claimed that Serbia should turn to both - the west and the east.

Some Speakers Bluntly Warned, Other Avoided Crisis

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¶3. Most participants criticized the current economic policies as "unsustainable in the long run" since the lack of coordination between relaxed fiscal and tight monetary policy had led to appreciation of the dinar making imports cheap and exports expensive. This imbalance created the high current account deficit of 16% of GDP in 2007. This deficit makes Serbian economy extremely vulnerable to decreases in foreign capital inflow and thus political instability could cause serious shocks in the economy. While some of the key speakers -- Slobodan Ilıc, State Secretary in the Finance Ministry; Vladimir Cupic, President of the Board of Hypo Alpe Adria Bank -- emphasized that decisions on Serbia's direction would directly influence quality of life of Serbian citizens for the next decade, others -- Finance Minister Cvetkovic -- remained

calm and claimed that economy is functioning well and budget would run a surplus.

#### Financial Sector Unhappy With NBS Restrictiveness

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¶4. Financial sector representatives - banks, insurance companies, and investment funds, expressed their unhappiness with restrictions from the National Bank of Serbia (NBS), which they said were even more restrictive than the European Central Bank and thus were obstructing the economy's development. Most of them agreed with Veroljub Dugalic, Secretary General of the Association of Banks of Serbia, who said that the monetary policy had reached its limits and it could not fix problems that resulted from pressures in the economy - fiscal relaxation, poor competitiveness of Serbian companies, low productivity and inefficiency. Further monetary tightening would only hurt the economy further and the price of keeping low inflation would be much higher than its benefits. Vice-Governor Diana Dragutinovic defended NBS claiming that the Bank had yet to build its credibility, unlike the European Central Bank.

#### Russian, Slovenian & Austrian Investors Happy Here

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¶5. Foreign investors seemed satisfied with their business results in Serbia. They avoided discussing the current political instability and its possible consequences, but instead presented their plans for expanding their businesses. A representative from Slovenian-owned JUB Paints stated Serbia had great potential. He said that the empty land near their factory, located 15 kilometers west of Belgrade, increased its value over 50 times in the period 2002-2008. Russian companies Lukoil and Gazprombank representatives, supported by Russian Ambassador Alekseev, explained that they wanted to become a reliable long term partner, bringing new technology and know how to the Serbian market.

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Comment

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¶6. Participants at the conference expressed much more concern over the current political situation on the margins than on stage. The overall message from the conference was not optimistic: reforms have slowed down, economic policies leading to an unsustainable current account deficit, and political developments could lead to an economic crisis that would rival the 90's and leave Serbia even further behind. Perhaps more important than who actually governs, political uncertainty remains the bigger concern for investors and businesses. End Comment.  
MUNTER